

LAKE ODESSA FIRE DEPARTMENT
FINANCIAL STATEMENTS
For the year ended March 31, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name LAKE ODESSA FIRE DEPARTMENT		County Ironia
Audit Date MARCH 31, 2004	Opinion Date JULY 8, 2004	Date Accountant Report Submitted to State: SEPTEMBER 14, 2004		

We have audited the financial statements of this local unit of government and rendered an opinion on the financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan*.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ yes ☐ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGR).			X

Certified Public Accountant (Firm Name) WALKER, FLUKE & SHELTON, PLLC			
Street Address 525 W APPLE ST		City HASTINGS	State MI
Accountant Signature Katherine K. Sheldon, CPA		ZIP 44058	
Walker, Fluke & Sheldon, PLLC			

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lake Odessa Fire Department
Ionia County, Michigan

We have audited the accompanying general purpose financial statements of Lake Odessa Fire Department, Ionia County, Michigan, as of and for the year ended March 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of Lake Odessa Fire Department's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Lake Odessa Fire Department as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Hastings, Michigan
July 8, 2004

Walker, Fluke & Sheldon, PLC

**LAKE ODESSA FIRE DEPARTMENT
COMBINED BALANCE SHEET -
ALL FUND TYPES AND ACCOUNT GROUPS
March 31, 2004**

	GOVERNMENTAL FUND TYPES	ACCOUNT GROUPS	TOTAL (MEMORANDUM ONLY)
		General Fixed Assets	Primary Government
ASSETS	General		
Cash and Cash Equivalents	\$ 7,259	\$ -	\$ 7,259
Fixed Assets	-	1,301	1,301
Total Assets	<u>\$ 7,259</u>	<u>\$ 1,301</u>	<u>\$ 8,560</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts Payable	\$ -	\$ -	\$ -
Total Liabilities	-	-	-
Fund Equity			
Investment in Fixed Assets	\$ -	\$ 1,301	\$ 1,301
Fund Balance	7,259	-	7,259
Total Fund Equity	<u>7,259</u>	<u>1,301</u>	<u>8,560</u>
Total Liabilities and Fund Equity	<u>\$ 7,259</u>	<u>\$ 1,301</u>	<u>\$ 8,560</u>

The Notes to Financial Statements are an integral part of this statement.

**LAKE ODESSA FIRE DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
For the Year Ended March 31, 2004**

	GOVERNMENTAL FUND TYPES
	General
Revenues:	
Contributions from Local Units	
Interest and Rentals	\$ 63,236
Other	117
	<u>418</u>
Total Revenues	<u>63,771</u>
Expenditures:	
Current:	
Public Safety:	
Fire Department	
Capital Outlay	55,211
	<u>1,301</u>
Total Expenditures	<u>56,512</u>
Excess of Revenues Over (Under) Expenditures	7,259
Fund Balance--April 1, 2003	<u>-</u>
Fund Balance--March 31, 2004	<u>\$ 7,259</u>

The Notes to Financial Statements are an integral part of this statement.

LAKE ODESSA FIRE DEPARTMENT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended March 31, 2004

	GENERAL FUND		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Contributions from Local Units	\$ 63,236	\$ 63,236	\$ -
Interest and Rentals	-	117	117
Other	-	418	418
Total Revenues	<u>63,236</u>	<u>63,771</u>	<u>535</u>
Expenditures			
Current			
Public Safety:			
Salaries and Wages		24,157	
Fringes		1,848	
Supplies		6,582	
Computer Expense		1,331	
Professional and Contractual		978	
Insurance		12,594	
Utilities		3,790	
Repairs and Maintenance		2,491	
Education and Training		1,400	
Other		40	
Capital Outlay		1,301	
Total Expenditures	<u>63,178</u>	<u>56,512</u>	<u>6,666</u>
Excess of Revenues Over (Under) Expenditur	58	7,259	(7,201)
Fund Balance--April 1, 2003	-	-	-
Fund Balance--March 31, 2004	<u>\$ 58</u>	<u>\$ 7,259</u>	<u>\$ (7,201)</u>

The Notes to Financial Statements are an integral part of this statement.

**LAKE ODESSA FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF LAKE ODESSA FIRE DEPARTMENT'S OPERATIONS

Lake Odessa Fire Department was organized in 2001 by the Odessa Township and the Village of Lake Odessa to provide fire protection to the residents and property owners. The Lake Odessa Fire Department operates under an appointed board of six members. Lake Odessa Fire Department receives 55% of its operating budget from Odessa Township and the remaining 45% from the Village of Lake Odessa. All pre-existing property used by the Fire Department that is titled in the name of Odessa Township or Village of Lake Odessa will remain the property of such entity.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present Lake Odessa Fire Department and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

BASIS OF PRESENTATION

The accounts of the Lake Odessa Fire Department are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds maintained are consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the Lake Odessa Fire Department are recorded in separate funds and account groups, categorized as follows:

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from contributions from the Township and Village and interest to provide for the administration and operation of: (1) general Lake Odessa Fire Department governmental departments, boards and commissions; and (2) fire protection. The fund includes the general operating expenditures of the local unit.

ACCOUNT GROUPS

General Fixed Assets Account Groups

This Account Group presents the fixed assets of the local unit utilized in its general operations (non-proprietary fixed assets).

**LAKE ODESSA FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of Lake Odessa Fire Department conform to generally accepted accounting principles as applicable to governmental units.

Governmental Funds

The Governmental Fund Types (General) use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due, and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

BUDGETS, BUDGETARY ACCOUNTING AND BUDGET BASIS OF ACCOUNTING

Budgets are adopted for all governmental fund types, as required by law. Budgets are adopted at the activity level and are presented at this level in the combined statement of revenues, expenditures, and changes in fund balance - all governmental fund types. The Fire Department uses the same basis of accounting for budgeting purposes as for financial statement presentation. The budget has been prepared in accordance with the requirements of P.A. 621 of 1978. The budget figures used are not the original amounts adopted at the beginning of the year. The budget has been amended by the Fire Department Board at regularly scheduled meetings in accordance with the requirements of P.A. 621 of 1978.

ENCUMBRANCE ACCOUNTING

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of moneys are recorded in order to reserve that portion of the applicable appropriation is not employed by Lake Odessa Fire Department.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FIXED ASSETS

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Groups, rather than in governmental funds. No depreciation has been provided on such fixed assets. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at its estimated fair market value on the date donated.

**LAKE ODESSA FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

TOTAL COLUMN ON COMBINED STATEMENTS--OVERVIEW

The total column on the Combined Statements is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

COMBINING FINANCIAL STATEMENTS

Combining financial statements are not presented for the general fund because it is the only fund of its type.

BALANCE SHEET-CASH AND INVESTMENTS

Michigan Compiled Laws Section 129.91, authorizes the Department to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Department has designated one bank for the deposit of Lake Odessa Fire Department Funds.

The Department's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for Lake Odessa Fire Department's cash deposits are as follows:

<u>DEPOSIT</u>	<u>CARRYING AMOUNT</u>	<u>BANK BALANCE</u>
Cash and Cash Equivalents	\$ 7,259	\$ 10,245
Total Deposits	<u>\$ 7,259</u>	<u>\$ 10,245</u>

<u>DEPOSIT</u>	<u>CARRYING AMOUNT</u>	<u>BANK BALANCE</u>
Insured (FDIC)	\$ 7,259	\$ 10,245
Uninsured	-	-
Total Deposits	<u>\$ 7,259</u>	<u>\$ 10,245</u>

**LAKE ODESSA FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004**

FIXED ASSETS

A summary of the changes in the general fixed asset group of accounts is as follows:

	<u>BALANCE</u> <u>3/31/2003</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>3/31/2004</u>
Computer Equipment	\$ -	\$ 1,301	\$ -	\$ 1,301

RISK MANAGEMENT

The Fire Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Fire Department manages its risk exposure through a combination of risk management pools and commercial insurance. The Fire Department has insurance provided by an independent insurance company for worker's compensation. Following is a summary of the risk management pool participation.

The Fire Department participates in the Michigan Township Participating Plan (Par Plan) for property, general liability, and employee bond coverage. The Par Plan was established in April 1985, pursuant to laws of the State of Michigan which authorizes local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the plan is to jointly exercise powers common to each participating member to establish and administer a risk management program; to prevent or lessen the incidence and severity of casualty losses occurring in the operation of its members; and to defend and protect any member of the authority against liability or loss.

The Par Plan, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to a total transfer of risk to reinsurance companies backing the Par Plan. Due to this reinsurance purchase, there is no pooling of risk between members. The plan has protected itself in the event a reinsurance becomes uncollectible by purchasing a reinsurance treaty for uncollectible reinsurance.

The Par Plan chose to adopt the forms and endorsements of conventional insurance protection and to reinsure these coverages 100%, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have reinsurance above that retention amount.

The individual members are responsible for their self-retention amounts (deductibles), which vary from member to member.

At March 31, 2004, there were no claims, which exceeded insurance coverage. The Fire Department had no significant reduction in insurance coverage from previous years.



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July 8, 2004

To the Fire Board
Lake Odessa Fire Department
Ionia County, Michigan

We have recently completed an audit of the financial statements of the Lake Odessa Fire Department, Ionia County, Michigan for the year ended March 31, 2004. During the course of the audit, the following items came to our attention, which require further comment.

Investment Policy

During the course of the audit, it was noted that the organization had not adopted an investment policy.

P.A. 196 of 1997 was signed and took immediate effect on December 30, 1997, which required the legislative body to adopt an investment policy that, at a minimum, includes the following:

1. A statement of the purpose, scope, and objectives of the policy, including safety, diversification, liquidity, and return on investment.
2. A delegation of authority to make investments.
3. A list of authorized investment instruments.
4. A statement concerning safekeeping, custody, and prudence.

After approval, the chief financial officer shall provide each financial intermediary, broker, or dealer with a copy of the investment policy and shall obtain an acknowledgment from them stating that they agree to comply with the terms of the investment policy.

It is our recommendation that the Board of Director's write and adopt an investment policy in compliance with P.A. 196 of 1997. The Fiscal Agent of the Lake Odessa Fire Department should provide each authorized depository with a copy and obtain the proper acknowledgment.

Depreciation Policy

During the course of the audit, it was noted that the Fire Board has not adopted a depreciation policy. A depreciation policy will determine the lives of assets and the rates at which they are to be depreciated. This policy will become critical with the implementation of GASB 34, which requires more detailed accounting in the area of fixed assets.

It is recommended that a depreciation policy be adopted. Samples of these policies have already been provided to the Fire Board Fiscal Agent.

Proper Documentation for Expenditures

During testing of expenditures it was noted that several disbursements tested did not have proper documentation to support the expenditure. Payments were being made from statements and the corresponding invoices are not attached for inspection.

Michigan Department of Treasury Uniform Accounting Procedures states that original bills or invoices not statements or copies must be attached to all disbursements. Invoices or contracts should support expenditures for goods or services. A signed reimbursement form that specifies the payee, what the expense was incurred for, where the expense occurred, when the expense was incurred and why the expense was incurred should substantiate reimbursements to employees or officials. Applicable invoices or receipts should be attached.

It is our recommendation that the Fire Chief present the Fire Board's Fiscal Agent with proper documentation for all expenditure. The Fire Board's Fiscal Agent should verify that the appropriate documentation has been received prior to disbursements being made.

Fixed Asset Inventory

According to the joint fire protection agreement, existing property used by the Fire Department that is titled in the name of the Village or Township shall remain the property of such entity. A schedule or listing of fixed assets is essential to protect the Fire Department's property. Equipment purchased by the Lake Odessa Fire Department should be tracked separately and will become its general fixed asset group of accounts. The general fixed asset listing should include the original date purchased or obtained, the description of the item and the amount paid. The general fixed assets should be classified among recommended asset classes as follows: Land, Buildings, Improvements Other Than Buildings, Equipment, and Construction In Progress.

It is recommended that the Fire Department tag its equipment to facilitate the tracking of ownership for each piece of equipment. This procedure should be coordinated with updating and maintaining the general fixed asset listing of the Lake Odessa Fire Department. This list will become crucial as the Fire Department implements GASB 34.

We would like to take this opportunity to thank the Lake Odessa Fire Department and Fiscal Agent for the cooperation and courtesy extended to us during the audit. If you have any questions or need assistance, do not hesitate to contact us.

Walker, Funke & Shields, P.C.